

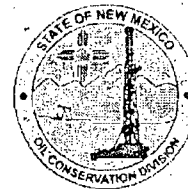
State of New Mexico
Energy, Minerals and Natural Resources Department

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Governor

David Martin
Cabinet Secretary - Designate

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Deputy Cabinet Secretary

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Division Director
Oil Conservation Division



October 31, 2013

Kaiser-Francis Oil Co.
P.O. Box 21468
Tulsa, OK 74121-1468

30-015-26415

NON-DENIAL OF APD(S) DESPITE NON-COMPLIANCE WITH
INACTIVE WELL REQUIREMENTS

Re: Kaiser-Francis Oil Company, OGRID No. 12361

- Malaga 1 Com #1, C-1-T24S-R28E, 660' FNL & 1980' FWL, Eddy County, New Mexico

Dear Operator:

You have requested a permit to drill, deepen or plug back the well/s identified above. Unfortunately, according to the attached inactive well list, your company is out of compliance with 19.15.5.9(A) NMAC [Part 5.9(A)] due to having too many wells in violation of 19.15.25.8 NMAC [Part 25.8] (inactive well rule) that are not subject to an inactive well agreed compliance order ("ACOI"). See Part 5.9(A)(4) NMAC. As an operator of 50 wells, your company may have no more than 2 wells in violation of Part 25.8. Your company has 4 wells in violation.

The Director of the Oil Conservation Division ("OCD") or her designee may deny a permit to drill, deepen or plug back if the applicant is not in compliance with Part 5.9(A). See 19.15.14.10(A) NMAC.

An Operator is not in compliance with Part 5.9(A) if the Operator:

- does not meet the financial assurance requirements of 19.15.8 NMAC;
- is subject to a division or commission order finding the operator to be in violation of an order requiring corrective action;

I To check an operator's compliance with the inactive well rule, go to the OCD's website at www.emnrd.state.nm.us/ocd. On the left-hand side of the main window, click on "OCD Online"; select "E-Permitting"; click on "Compliance"; click on "Inactive Well List." Leave the search terms as "Exclude Wells Under ACOI," "Exclude Wells in Approved TA Period," and "15" months from last production or injection. Enter the operator's name or OGRID and select "Get Report." The report will list wells operated by that operator that are presumed to be out of compliance with the division's inactive well rule, and that will be considered in determining if the operator is out of compliance with Part 5.9(A).

- has a penalty assessment that has been unpaid for more than 70 days since the issuance of the order assessing the penalty; or
- has more than the allowed number of wells out of compliance with 19.15.25.8 NMAC (inactive well rule).

As the Director's designee I have decided **not to deny** your APD application on the basis of 5.9. However, **my decision not to deny your APD on the basis of Part 5.9 does not constitute approval of your APD by the OCD District Office, which may impose specific requirements.**

Please note, however, that the OCD cannot assign an allowable to a well or issue authorization to transport oil or natural gas from a well if the operator is out of compliance with Part 5.9. See 19.15.16.19(A) NMAC. Therefore, if your company is not in compliance with Part 5.9(A) at the time it requests an allowable and authorization to transport, its request will be denied.

To come into compliance with Part 5.9(A) as to inactive wells you must reduce the number of wells on your inactive well list or otherwise demonstrate that you have no more than the tolerated number of wells out of compliance with the inactive well rule. A well will be removed from the inactive well list when you take one of the following actions:

1. plug the wellbore and file an approved C-103 reporting the plugging;
2. place the well on approved temporary abandonment status;
3. return the well to production or other beneficial use and file a C-115 reporting production or use; or
4. enter into an ACOI with the OCD covering the well.

An ACOI sets a schedule for returning the operator's inactive wells to compliance and imposes sanctions if the schedule is not met. If you would like to discuss entering into an ACOI for your non-compliant inactive wells, please contact OCD Compliance & Enforcement Manager, Daniel Sanchez at (505) 476-3493 or daniel.sanchez@state.nm.us.² Attached is an information sheet explaining Part 5.9.

This non-denial of your APD(s) for the above identified well(s) despite non-compliance with inactive well requirements automatically expires six months from today's date unless an APD for the above well(s) is approved within that time by the OCD District Office.

Respectfully yours,



Daniel Sanchez
OCD Enforcement & Compliance Manager

² Please note that Agreed Compliance Orders are offered at the discretion of the OCD, and that not all Operators are eligible to enter into such agreements.

EC: T. C. Shapard, OCD District 2 Geologist
E.L. Gonzales, District 1 Supervisor
Randy Dade, District 2 Supervisor
Charlie Perrin, District 3 Supervisor
Ed Martin, District 4 Supervisor
Gabriel Wade, Assistant General Counsel-Santa Fe
Theresa Duran-Saenz, Legal Assistant-Santa Fe

District I
1625 N. French Dr., Hobbs, NM 88240
Phone: (575) 393-6161 Fax: (575) 393-0720

District II
811 S. First St., Artesia, NM 88210
Phone: (575) 748-1283 Fax: (575) 748-9720

District III
1000 Rio Brazos Road, Aztec, NM 87410
Phone: (505) 334-6178 Fax: (505) 334-6170

District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone: (505) 476-3460 Fax: (505) 476-3462

State of New Mexico
Energy Minerals and Natural Resources
Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-101
Revised July 18, 2013

☐ AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

¹ Operator Name and Address Kaiser-Francis Oil Company, P. O. Box 21468 Tulsa, OK 74121-1468		² OGRID Number 012361
		³ API Number 30 - 015-26415
⁴ Property Code 22991	⁵ Property Name Malaga 1 Com	⁶ Well No. 1

7. Surface Location

UL - Lot	Section	Township	Range	Lot Idn	Feet from	N/S Line	Feet From	E/W Line	County
C	1	24S	28E	-	660	North	1980	West	Eddy

8. Proposed Bottom Hole Location

UL - Lot	Section	Township	Range	Lot Idn	Feet from	N/S Line	Feet From	E/W Line	County

9. Pool Information

¹⁰ Pool Name Culebra Bluff South (Bone Springs)	¹¹ Pool Code 15011
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Additional Well Information

¹² Work Type P	¹³ Well Type G	¹⁴ Cable/Rotary R	¹⁵ Lease Type P	¹⁶ Ground Level Elevation 2956
¹⁷ Multiple No	¹⁸ Proposed Depth 12100	¹⁹ 2nd Formation Bone Springs	²⁰ Contractor Unk.	²¹ Spud Date 8/25/90
Depth to Ground water n/a		Distance from nearest fresh water well n/a		Distance to nearest surface water n/a

☒ We will be using a closed-loop system in lieu of lined pits

21. Proposed Casing and Cement Program

Type	Hole Size	Casing Size	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surface	17 1/2	13 3/8	48	615	775	Surf
Interm.	12 1/4	9 5/8	36 & 40	2550	1150	Surf
Prod.	8 3/4	7	26	10671	1400	4610

Casing/Cement Program: Additional Comments

Liner: 4 1/2", 15.1# set from 10328'-12098'. Cmt'd w/285 sxs. TOC @ 10328'.

22. Proposed Blowout Prevention Program

Type	Working Pressure	Test Pressure	Manufacturer

²³ I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that I have complied with 19.15.14.9 (A) NMAC <input type="checkbox"/> and/or 19.15.14.9 (B) NMAC <input type="checkbox"/> , if applicable. Signature: <i>Charlotte Van Valkenburg</i>		OIL CONSERVATION DIVISION	
Approved By:			
Printed name: Charlotte Van Valkenburg		Title:	
Title: Technical Coordinator		Approved Date:	
E-mail Address: Charlottv@kfoc.net		Expiration Date:	
Date: 10-11-13	Phone: 918-491-4314	Conditions of Approval Attached	

INACTIVE WELL RULE (19.15.25.8 NMAC)